

I.C.C. INTERNATIONAL PLC

No. 108/2020
15 July 2020

CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date: 11/07/19

Company Rating History:

Date	Rating	Outlook/Alert
23/03/05	AA	Stable
12/07/04	AA-	Stable
11/07/02	AA-	-

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com



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RATIONALE

TRIS Rating lowers the company rating on I.C.C. International PLC (ICC) to “AA-” from “AA”, with a “stable” rating outlook. The downgrade reflects ICC’s deteriorating performance and weaker-than-expected profitability as a result of the coronavirus (COVID-19) pandemic and slow recovery prospects of the fashion product sector.

The “AA-” rating continues to reflect ICC’s lengthy track record as a distributor of fashion and consumer products within the Saha Group, its leading position in lingerie market, and its nationwide distribution network. The rating also takes into consideration ICC’s financial strength, which is characterized by minimal financial leverage with conservative financial policies, as well as an ample liquidity profile and high financial flexibility.

KEY RATING CONSIDERATIONS

Declining revenue and less-than-expected earnings

ICC’s operating performance has declined during the last three years due to intense competition and uncertainties surrounding the economic situation. ICC is also facing intense competition from both powerful global brand products and small local manufacturers on the online platforms. Total sales in 2019 were THB11.31 billion, dropping by 8.4% from THB12.35 billion in 2018, and from THB12.44 billion in 2017. Revenue deteriorated further in the first quarter of 2020, decreasing by 27.5% year-on-year (y-o-y) to THB2.14 billion.

Sales of fashion products have been hit by a sharp drop in the number of tourists since the COVID-19 pandemic began at the beginning of the year. In the first quarter of 2020, ICC’s sales across all product categories significantly dropped. Sales in the lingerie segment plunged by 39% y-o-y, while sales in the men’s wear segment dropped by 29% y-o-y, and sales from the cosmetics segment declined by 20% y-o-y.

TRIS Rating expects ICC’s sales in the second quarter of 2020 to be further dampened as department stores and some traditional shops, which are the major product distribution channels, were forced to close for around two months. Lingering economic fallout from the pandemic, coupled with weaker consumer confidence, could worsen recovery prospects of fashion products sector, and thus ICC’s revenue.

The deterioration in ICC’s profitability was exacerbated by the fallout from the pandemic. Its operating profit in 2019 dropped to THB71 million, from THB244 million in 2018, and THB124 million in 2017. In the first three months of 2020, ICC reported an operating loss of THB114 million. The operating profit has decreased over the years, falling by more than half compared with THB330-THB430 million per annum recorded during 2014-2016. The operating margin was about 2.7% in 2019, and minus 0.3% in the first three months of 2020, on the back of slipping revenue and high selling general and administrative expenses (SG&A).

During 2020-2022, we expect ICC’s revenue and profits will continue to come under pressure. Our base-case scenario assumes ICC’s operating revenue will decline by about 35% in 2020, and then ramp up to around THB10 billion per annum during 2021-2022. We expect the recovery of revenue may take time to rebound to the levels seen in the past. With the expected decline in revenue, we forecast the operating margin to be negative in 2020, and then gradually improve to the 2.6%-3.0% range during 2021-2022. We also expect

the company to focus more on inventory management to reduce excess stock during the market downturn.

Private-sector spending to weaken

The Gross Domestic Product (GDP) in Thailand for the first quarter of 2020 contracted by 1.8% y-o-y as a result of decreases in private and public investments, government expenditures, and exports of goods and services. Although spending in the private sector expanded by 3% y-o-y in the first quarter of 2020, the growth was at a slower pace than that of the same period in 2019 at 4.8%. According to the Office of the National Economics and Social Development Council (NESDC), private consumption in 2020 is forecast to trim down to negative 1.7%, revised down from the 3.5% growth, as a result of the COVID-19 pandemic, severe drought, and a sharp drop in tourism receipts.

The Consumer Confidence Index (CCI) as of April 2020 bottomed at 47.2, down from 50.3 as of March 2020. CCI has decreased for 14 consecutive months, from the range of 75-85 during 2019. The Retail Sales Index (RSI) also contracted by 8.3% y-o-y in the first three months of 2020. RSI, excluding online and/or e-commerce sales, is expected to decline in 2020.

Sales of fashion products are moving in tandem with the economic situation. In 2019, the market value of lingerie through department stores dropped by 11.7%. The market value of men's wear products in department stores slipped by 6.3% in 2019 and further dropped by 24.7% y-o-y in the first quarter of 2020. According to the NESDC, the private consumption spending for clothing in the first three month of 2020 contracted 6.9% y-o-y. TRIS Rating expects sales of fashion products in 2020 to be substantially affected by the COVID-19 pandemic. The market values of men's apparel and lingerie are expected to drop. Even sales of cosmetics, which are usually resistant to economic cycles, may see a decline.

Sales through department stores and traditional shops plunge

ICC has a nationwide distribution network, covering around 3,000 points of sale as of March 2020. Its products are available in department stores, discount stores, traditional shops, and ICC's own shops throughout Thailand. Traditional shops and department stores are ICC's major distribution channels, making up around 48% and 32% of ICC's total sales in 2019, respectively.

The department stores and some of traditional shops had to close from 22 March to 16 May 2020 as part of the measures to contain the spread of COVID-19. ICC's sales through department stores in the first quarter of 2020 plunged by 35% y-o-y, while sales through traditional shops slipped by 28% y-o-y. After the country reopens, TRIS Rating expects pending demand for fashion products in department stores to surge in the short term. However, we believe that consumer confidence is likely to remain low in the fragile economy and the strength of recovery of the fashion products sector is highly uncertain, in the aftermath of COVID-19. In our view, the fashion product sector may recover slowly as demand may fall due to the economic recession.

New retail formats, such as online shopping and television (TV) shopping, have become significant alternative channels to reach customers during the social-distancing measures. ICC has focused on expanding online sales to grasp growing demand in this area. ICC's sales from new retail format generated about 4% of total sales in the first quarter of 2020, and doubled during the national lockdown, estimated to reach about 6% of total sales in 2020. The company expects new-format sales will make up around 10% of the total in the long term. However, sales from online shopping and TV shopping remain small, and are as yet insufficient to compensate the loss of revenue from department stores and traditional shops.

Dominant position in lingerie market

ICC dominates the lingerie market, especially the middle- to high-end segments. ICC held a 60.4% market share in 2019, as measured by sales through department stores in Thailand. The lingerie segment covers several well-known lingerie brands such as "Wacoal", "BSC", "ELLE", and "Kullasatri". Lingerie is ICC's largest product segment, contributing about 32% of total sales in 2019. Products sold under the Wacoal brand contributed about 90% of ICC's lingerie sales.

Wacoal, ICC's flagship lingerie brand, is the market leader for lingerie products in Thailand. The Wacoal brand alone held a market share of about 54.4% in 2019, down from 56.2% in 2018. However, its market share is far beyond the second-ranked company which held around 20%. The Wacoal brand has a long track record in the Thai lingerie market, stretching back about five decades. Wacoal has a strong brand image in fit, function, and product innovation. It has a strong market position in the working-age segment. Going forward, ICC plans to launch new collections of lingerie products depending on the market situation, while boosting sales via new retail channels such as online and on-air platforms, and expanding its footprint into Thailand's neighboring countries.

Minimal leverage with conservative financial policy

ICC maintains very conservative financial policy, having been a debt-free company for a long time. As of 31 March 2020, the company only had THB40 million in outstanding debts. The borrowed funds are solely for the working capital needs of a subsidiary. Since ICC has no sizable capital expenditure for a long period of time, the company is in a net cash position. As

of March 2020, cash on hand and cash equivalents amounted to around THB1.5 billion. This amount is sufficient to cover the scheduled debt repayments and fund an investment, if needed.

ICC plans for a normal level of capital expenditures of about THB290-THB320 million per annum during 2020-2022. TRIS Rating does not expect any significant changes to ICC's capital structure during the next three years.

High flexibility

ICC holds stakes in 24 listed firms and several non-listed firms. In 2019, the company received dividend incomes from its investments of around THB570 million, yielding nearly 60% of ICC's earnings before interest, tax, depreciation, and amortization (EBITDA). The COVID-19 pandemic and economic recession may have a negative impact on ICC's dividend receipts in 2020, particularly receipts from the cosmetics and fashion segments. The dividend receipts are expected to increase during 2021-2022.

ICC's financial flexibility is enhanced by its liquid investment portfolio. The market value of ICC's listed-firm investment holdings was THB8.16 billion at the end of March 2020. The value of the investment portfolio was about 8.8 times greater than the total amount of debt outstanding, including guarantees to related and joint venture companies, and financial lease, at the end of March 2020.

BASE CASE ASSUMPTIONS

- ICC's revenue to come under pressure in 2020, and then rebound to a level of around THB10 billion per annum during 2021-2022.
- Operating margin to be negative in 2020, and then stay in the 2.6%-3.0% range during 2021-2022.
- Planned capital spending will be about THB860 million in aggregate over the next three years.

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that ICC will maintain its position as the Saha Group's arms for fashion product distribution and sustain its dominant position in the lingerie market. TRIS Rating also expects ICC to continue its conservative financial policies and maintain an ample liquidity profile with high flexibility.

RATING SENSITIVITIES

The credit downside case would materialize if ICC makes an aggressive shift in the use of leverage. A rating downside case would be triggered if the company's operating performance deteriorates further than our expectations. In contrast, the rating upside case would materialize if its operating results and ability to generate cash flow improve materially on a sustained basis.

COMPANY OVERVIEW

ICC was established in 1964 and listed on the Stock Exchange of Thailand (SET) in 1978. ICC is one of the major distributors within the Saha Group, distributing fashion and consumer products. As of May 2020, approximately 64% of ICC's shares were held by the Chokwatana family and companies in the Saha Group.

ICC's business strength is underpinned by its diverse product categories, broad portfolio of brands, and nationwide distribution network. ICC offers more than 80 brands, covering international licensed brands and its own brands. The international licensed brands such as "Wacoal", "Lacoste", and "Arrow", are well accepted by Thai consumers. ICC also manages its own brands such as "BSC", "Enfant", "Essence", and "St. Andrews". Revenue from the international licensed brand products comprised approximately 71% of total revenue in 2019.

The major segment in which ICC has strong competitive position and significant market share is lingerie. The company has lengthy track record in the industry and receives the support from suppliers within the Saha Group.

For the first quarter of 2020, total sales were THB2.14 billion. The top contributors were the lingerie segment (27% of revenue), men's apparel (26%), fabric softeners (15%), and cosmetics (10%).

KEY OPERATING PERFORMANCE
Table 1: ICC's Sales Breakdown

Line of Business	2017		2018		2019		Jan-Mar 2020	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Lingerie	3,969	32	4,020	33	3,569	32	583	27
Men's wear	3,211	26	3,131	25	2,991	26	562	26
Cosmetics	1,274	10	1,142	9	1,027	9	209	10
Fabric softeners	1,376	11	1,403	11	1,400	12	318	15
Others	2,617	21	2,654	22	2,322	21	471	22
Total sales	12,447	100	12,350	100	11,309	100	2,143	100

Source: ICC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	2,264	11,590	12,597	12,663	12,853
Earnings before interest and taxes (EBIT)	(112)	791	858	709	1,051
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(3)	1,091	1,073	972	1,246
Funds from operations (FFO)	(10)	1,019	979	867	1,132
Adjusted interest expense	19	16	19	19	20
Capital expenditures	76	347	201	335	426
Total assets	31,282	23,645	23,550	23,280	20,199
Adjusted debt	41	0	0	158	0
Adjusted equity	26,509	20,470	20,245	19,911	17,380
Adjusted Ratios					
EBITDA margin (%)	(0.13)	9.41	8.52	7.67	9.69
Pretax return on permanent capital (%)	1.47 **	3.68	4.05	3.62	5.99
EBITDA interest coverage (times)	(0.15)	69.74	57.33	52.37	62.66
Debt to EBITDA (times)	0.06 **	0.00	0.00	0.16	0.00
FFO to debt (%)	1,612.17 **	n.m.	n.m.	550.01	n.m.
Debt to capitalization (%)	0.15	0.00	0.00	0.79	0.00

* Consolidated financial statements

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

I.C.C. International PLC (ICC)

Company Rating:	AA-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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